



Cap-and-Trade Program Annual Update

November 19, 2015

Presentation Outline

- ▣ Background
- ▣ Major milestones
- ▣ General Program statistics
- ▣ Reporting and verification
- ▣ First compliance period
- ▣ Offsets program
- ▣ Program linkage
- ▣ 2016 Rulemaking activities
- ▣ Next steps

Program Background

- One of a suite of measures to reduce greenhouse gas (GHG) emissions under AB 32
- The cap limits total GHG emissions from all regulated sources
- The cap declines over time to reduce emissions
- Participants are allowed to trade State-issued GHG emissions allowances
 - Provides flexibility and reduces costs of compliance
- Works together with command-and-control measures

Program Goals

- ▣ Reduce GHG emissions
- ▣ Put a price on emissions to incentivize change
- ▣ Spur innovation in low-emission and efficient technologies
- ▣ Complement existing programs to reduce smog and air toxics
- ▣ Ensure AB 32 emissions goals for GHGs are realized through a strict limit
- ▣ Provide a flexible mechanism that allows covered entities to find the most cost-effective reductions
- ▣ Facilitate integration of regional, national, and international GHG reduction programs

Program Requirements

■ Mandatory GHG Reporting Regulation (MRR)

- Adopted 2007 and in effect January 1, 2008
- 10,000 MT CO₂e threshold for reporting only, and 25,000 MT CO₂e threshold for inclusion in Cap-and-Trade Program (reporting and verification)
- About 775 reporting entities
- Large emitters, importers and retail providers of electricity, and fuel suppliers

■ Cap-and-Trade Regulation

- Adopted in Fall 2011 and in effect January 1, 2012
- Covers 85% of statewide GHG emissions
- Must surrender allowances and offsets to match GHG emissions for each compliance period
- Comply with recordkeeping, market rules, verification, and other requirements in the regulation

Major Milestones

- ▣ First auction: November 2012
- ▣ First compliance period began: January 2013
- ▣ Program linked with Québec: January 2014
- ▣ First annual compliance event: November 2014
 - ▣ 100% compliance
- ▣ First joint auction with Québec: November 2014
- ▣ Compliance obligation for supplied fuels: January 2015
- ▣ First compliance period compliance event: November 2015
 - ▣ 99.8% compliance

General Program Statistics

- ▣ ~450 facilities are covered by the Program
- ▣ ~260 voluntary entities are in the Program
- ▣ ~625 million compliance instruments are held in private accounts
- ▣ Most recent auction settlement price was \$12.52 per allowance
- ▣ Approximate market value of compliance instruments in circulation is \$7.56 billion

Reporting and Verification

- ▣ For 2014 data, 775 reports were submitted to ARB
 - ▣ 530 reports required verification
 - ▣ 528 reports were verified for 99.6% compliance
- ▣ Enforcement
 - ▣ Staff works proactively with stakeholders to prevent nonconformance with the Regulation
 - ▣ Formal enforcement is consistent and effective

First Compliance Period

- ▣ Total covered emissions were ~291 million MT CO₂e in 2013 and 2014
- ▣ Compliance instruments were surrendered for over 99.8% of covered emissions
- ▣ Instruments surrendered:
 - ▣ 95.5% allowances
 - ▣ 4.5% offsets
- ▣ Long-term financial planning of covered entities includes consideration of GHG emissions

Offsets Program

- ▣ Six offset protocols have been adopted:
 - ▣ U.S. forest
 - ▣ Urban forest
 - ▣ Livestock digesters
 - ▣ Ozone depleting substances (ODS)
 - ▣ Mine methane capture (MMC)
 - ▣ Rice cultivation

Offsets Program

- ▣ First offsets were issued September 2013
- ▣ 70 compliance projects and 90 early action projects have received ARB offset credits
- ▣ 33,890,217 offsets have been issued to date
- ▣ 111 offset project verifiers

Project type	U.S. Forest	Urban Forest	Livestock Digesters	ODS	MMC	Rice Cultivation
Compliance	13,774,091	0	378,190	3,996,482	280,667	0
Early action	7,158,925	0	1,349,970	6,183,259	768,633	0

Program Linkage

- California Program linked with Québec beginning January 2014
 - Five joint auctions held to date
 - Québec is developing offset protocols for mine methane capture
 - 100% compliance in first compliance period for 55 reporters in Québec
- Ontario announced intentions to develop a cap-and-trade program with a launch in 2017
 - Proposing to link their program with California/Québec
 - Ongoing collaboration on reporting, market rules, and offset protocols to support linkage

Staff Proposal: Objectives for Regulation 2016 Amendments

- ▣ Continue the Cap-and-Trade Program beyond 2020
- ▣ Improve Program efficiency where possible
 - ▣ Streamline Regulation requirements and implementation
 - ▣ Remove unnecessary requirements
- ▣ Reflect latest data and information
 - ▣ Leakage study results
 - ▣ Global warming potentials
 - ▣ Experience from other emissions trading programs
- ▣ Maintain environmental and market integrity

Staff Proposal: Regulation 2016 Amendments for 3rd Compliance Period

- ▣ Streamlining offsets program
- ▣ Streamlining auctions
- ▣ Streamlining management of information
- ▣ Incorporate sector-based offset credits into Program
- ▣ Incorporate results of leakage studies for third compliance period allowance allocation
- ▣ Linkage with Ontario, Canada

Staff Proposal: Regulation 2016 Amendments for Post-2020 Program

- Post-2020 caps on emissions and program scope
- Changes to cost-containment and market oversight provisions
- Modifications so that the Program can be used to comply with U.S. EPA's Clean Power Plan
- Allowance allocation for leakage protection
- Continue linkage with Québec and potentially Ontario

Regulation 2016 Amendments: Tentative Schedule

Date	Event
October 2015 to May 2016	Public workshops on specific topics
Spring 2016	45-day Regulation and Initial Statement of Reasons released
Summer 2016	First Board hearing
Spring 2017	Second Board hearing
Summer 2017	Final Regulation and Final Statement of Reasons to Office of Administrative Law
October 2017	Adopted Regulation becomes effective

Regulation 2016 Amendments: Workshop Schedule

▣ Past workshops:

Date	Workshop Topic
October 2, 2015	2016 rulemaking scope and schedule Cost containment and market oversight Compliance with U.S. EPA Clean Power Plan
October 28, 2015	Sector-based offsets

▣ Tentative future workshops:

Date	Workshop Topic
January 2016	Leakage study results
February 2016	Allowance allocation
Spring 2016	Further workshops as needed

Cap-and-Trade Program: Next Steps

- ▣ Continue to implement the Program
- ▣ Continue public process for 2016 amendments
- ▣ Continue coordination with development of the Climate Change Scoping Plan Update and the plan for compliance with the U.S. EPA's Clean Power Plan